

**BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION**

**COPY**

**IN THE MATTER OF THE NEBRASKA  
PUBLIC SERVICE COMMISSION, ON ITS  
OWN MOTION, SEEKING TO ESTABLISH  
A LONG-TERM UNIVERSAL SERVICE  
FUNDING MECHANISM**

**APPLICATION NO. NUSF-26**

**DIRECT TESTIMONY OF**

**PAMELA L. HEDLIN**

**QWEST CORPORATION**

1       **IDENTIFICATION OF WITNESS**

2  
3       **Q.     PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT**  
4       **POSITION.**

5       A.     My name is Pamela L. Hedlin and my business address is 1801 California,  
6       Denver, Colorado 80202. I am employed by Qwest Services Corporation ("Qwest") as a  
7       Manager in the Policy & Law organization.

8  
9       **Q.     PLEASE DESCRIBE YOUR WORK EXPERIENCE**

10      A.     As the Issues Manager for Universal Service, I am responsible for universal  
11      service fund advocacy pertaining to administrative and policy issues, at both the state and  
12      federal level. Prior to this position, I was a Manager in Arizona Regulatory Affairs for  
13      Qwest. In that position I had responsibility for regulatory activity associated with  
14      wholesale interconnection activities in the state. I have been employed by Qwest or its  
15      predecessor, U S WEST, for the past seven years.

16  
17      **Q.     PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
18      **OTHER QUALIFICATIONS.**

19      A.     I have a B.A. in Marketing from the University of Iowa and received my Masters  
20      in Business Administration from the University of Phoenix.

21  
22      **Q.     HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

23      A.     Yes, I filed joint testimony with the Nebraska Commission in NUSF-26 and  
24      testified before the Commission on January 29, 2002 in Rule and Regulation No. 150.

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## **I. PURPOSE OF TESTIMONY**

3

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 A. The purpose of my testimony is to discuss the issues raised in the Commission  
6 Order setting hearing in this matter, entered January 28, 2002. Specifically, I will address  
7 issues one, two, four, five and six.

8

### **ISSUE ONE**

9 **Q. WHAT SHOULD BE THE GOALS OF THE NEBRASKA UNIVERSAL**  
10 **SERVICE FUND (NUSF)?**

11 A. In Application No. C-1628, entered January 13, 1999, the Commission recognized  
12 that implicit subsidies have been used to keep rates affordable for all, and that was a state  
13 and federal policy. The Order resolved major issues on how to structure the NUSF, and,  
14 together with the Nebraska revised statutes and the 1996 Telecom Act ("Act"), it sets  
15 forth the goals of the universal service fund. The NUSF should be founded on the  
16 principles of ensuring that quality services are available at just, reasonable and affordable  
17 rates, and ensuring that rates in rural, high-cost areas are reasonably comparable to those  
18 in urban areas. Additionally, the NUSF should be a predictable, sustainable and  
19 sufficient fund. To summarize, Qwest recommends adoption of the following goals:

- 20 • Fairly compensate all providers of supported services with explicit universal service  
21 support to provide the services to the customers located in high cost areas.

- 1 • Determine sufficient support needs to be received on a revenue neutral basis after  
2 consideration of federal high-cost universal service support; not impose a rate of  
3 return.
- 4 • Create competitively and technologically neutral incentives for investments in high  
5 cost service areas.
- 6 • Create a fund equitably supported by all telecommunications carriers that provide  
7 intrastate retail telecommunications services.
- 8 • Create a process whereby the Commission shall retain reasonable jurisdiction over all  
9 eligible telecommunications carriers' universal service offering. Such oversight shall  
10 be competitively and technologically neutral. In the case of telecommunications  
11 providers who are not subject to state regulation, the regulatory oversight shall be  
12 limited to universal service related services only as permitted by federal law.
- 13 • Have a specific, predictable, and competitively neutral NUSF high cost support  
14 mechanism.

15 Qwest believes that the adoption of the above proposed goals is in the public  
16 interest. Additionally, by clarifying that the support is targeted to the high-cost areas, the  
17 Commission will promote investment and the advancement of competition in the high-  
18 cost areas of the state. If the high cost fund is properly structured, it will foster an  
19 environment conducive to efficient competition across all regions and classes of  
20 customers. Also, the Commission can ensure that universal service support does not  
21 provide a windfall for any carrier by ensuring that a revenue-neutral standard is adopted,  
22 where all receipts from the fund are offset by an equal reduction in cataloged rates, after

1 consideration of the federal support. This is consistent with Section 86-1402, that NUSF  
2 is a supplement to federal mechanisms.

## 4 **ISSUE TWO**

### 5 **Q. HOW SHOULD NUSF SUPPORT BE DETERMINED FOR EACH** 6 **PROVIDER?**

7 A. The necessary support for the most efficient provider should be determined and  
8 that support should be available to all eligible telecommunications carriers, provided the  
9 Commission eligibility requirements are met.

10  
11 First and foremost, any method for determining support should be technologically  
12 and competitively neutral and ensure sufficient and predictable support to those ETCs  
13 providing the supported services in the high cost areas. Keeping that in mind, along with  
14 the principles stated above, high cost areas and the corresponding support should be  
15 determined based upon the cost to serve an area.

16  
17 All methods of calculating support have varying degrees of precision that  
18 manifest in estimates of high cost wire centers. However, there is no basis to conclude  
19 that this deficiency is substantially greater in the context of one carrier versus another.  
20 Thus, Qwest responds that the question before the Commission isn't what is the cost for  
21 an incumbent provider, but the cost of the most efficient, or least cost provider. This is  
22 further discussed in the testimony of Qwest's witness Byron Watson.

23

1 For the purposes of determining support for each provider, the Commission  
2 should determine the necessary support for the most efficient provider and make this  
3 support portable to all ETCs. This is consistent with the objective of creating a  
4 competitively neutral funding mechanism that targets support to specific high cost  
5 geographic areas, regardless of the provider providing that service.

6  
7 The above method reflects the purpose of the Nebraska Act, which is to ensure  
8 that "all Nebraskans, without regard to their location, have comparable accessibility to  
9 telecommunications services at affordable prices." (86-1402) The public interest can be  
10 served by the creation of an explicit, sufficient and sustainable universal service fund  
11 applicable to all carriers providing service in high cost areas. These goals are best met if  
12 the Commission applies the same standards to all carriers, whether it be an incumbent  
13 ETC or competitive ETC, rural or non-rural ILEC, wireline or wireless carrier.

14  
15 High cost service areas are defined by their characteristics and not by the size of  
16 the companies that serve them - universal service support should be dependent on the  
17 geographic characteristics of a service area. It should not be based on whether a carrier is  
18 characterized as "rural" or "non-rural," nor should support be based upon the total  
19 number of access lines served by a carrier rather than the population it serves or the  
20 territory in which it provides that service. Any method chosen should encourage  
21 efficient investment and efficient competition.

22



1 include broadband services is just one of a number of actions the federal government  
2 could take to further broadband deployment, and that these alternatives, such as tax  
3 breaks, public-private partnerships, and the removal of legal barriers, may be more  
4 effective.<sup>2</sup> There are other means of stimulating deployment of advanced services,  
5 including eliminating disparity of regulation between similar services.

6

7 With regard to the Commission's inquiry as to whether schools and libraries and  
8 rural health care providers should be covered under the NUSF, there has been no  
9 demonstration of a need presented. Qwest is concerned that the fund would be burdened,  
10 both financially and administratively if the NUSF program is expanded in this way.

11

12 Additionally, as discussed in Qwest's previously filed comments in this  
13 proceeding, Qwest supports the Commission policy of supporting all lines and their  
14 functional equivalent. This promotes the principle of a competitively neutral USF  
15 mechanism. One of the beneficial results of a properly designed high cost fund will be  
16 the incentives created for full and fair competition. This same argument applies to the  
17 number of lines that are to be supported. If an ETC cannot receive support for lines other  
18 than the first two, for instance, the incentive to fully expand service into the high cost  
19 areas is stunted; a carrier has less motivation to fully deploy its full array of services.  
20 Supporting all lines gives all ETCs a greater incentive to enter high cost areas.

21

22 Providing support to all high-cost lines eases the administrative burden of  
23 tracking lines by address, or billed party or any other criterion. If, for example, the

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<sup>2</sup> *Id.*



1 NUSF were to support only two lines per household, the administrator would have to  
2 keep detailed records of every supported customer and every line those customers have to  
3 ensure that only two lines on the customer's premises are supported. When competitive  
4 ETCs enter the high cost areas, the problem is exacerbated. Not only will the  
5 administrator have to track the lines of one company and decide which lines get funding,  
6 the administrator will also have to determine which company is entitled to the support.  
7 The problem is compounded because of the existence of multiple providers with  
8 customers who subscribe to both business and residence services.

9  
10 The decision to support fewer than all lines essentially alters the definition of the  
11 supported services and would limit the services that an ETC is obligated to provide  
12 pursuant to their catalogs or service offerings on file with the Commission. If the  
13 Commission were to determine not to support all lines, the provider is only encouraged to  
14 provide the supported services. An ETC's economically sound investment decisions  
15 could well be limited to provide only two lines per household in high cost areas.

16  
17 This issue was investigated in C-1628, and the Commission decided that all lines  
18 would be supported. The comments provided in this proceeding have not provided any  
19 evidence to support significant changes since the Commission's thorough investigation of  
20 the matter that would warrant a change.

21 **Q. SHOULD NUSF SUPPORT BE PROVIDED TO ANY ADDITIONAL**  
22 **SERVICES, SUCH AS RURAL SPECIAL ACCESS/PRIVATE LINE SERVICES,**

1 **ONE-TIME INSTALLATION/CONSTRUCTION CHARGES, OR PUBLIC**  
2 **INTEREST PAYPHONES?**

3  
4 A. As general policy, Qwest does not believe that the services supported by the  
5 NUSF should be changed. Furthermore, changing the supported services will require  
6 additional sufficient support from the fund, as pursuant to Section 254 (f) of the Act, a  
7 "State may adopt regulations to provide for additional definitions and standards to  
8 preserve and advance universal service within that State only to the extent that such  
9 regulations adopt additional specific, predictable, and sufficient mechanisms to support  
10 such definitions or standards that do not rely on or burden Federal universal service  
11 support mechanisms."

12  
13 If, for example, the Commission were to consider adding public interest  
14 payphones to the supported services there are numerous questions that must first be  
15 answered, such as:

- 16 • What should be the support level for payphone lines – should it be based upon cost of  
17 providing the payphone based upon high costs or profitability to provide the service?  
18 • Should there be distinctions between rural and urban areas?  
19 • Will there be a limit on the number of payphones that are supported by the NUSF?  
20 How will the supported phones be distinguished from the non-supported payphones?  
21 Will there be a means criteria for payphone placement?  
22 • Who determines the need for a public interest payphone?  
23 • What carriers are subject to a requirement to provide a public interest payphone?

- 1 • Will there be instances where no carrier will provide the service?

2 Any process set in place must be competitively neutral and designed to encourage  
3 efficient payphone competition.  
4

5 The same holds true for one time installation and construction charges. In some  
6 high cost areas the installation charges may prove to be financially prohibitive and  
7 customers may not be able to afford the construction charges as set forth in carriers'  
8 catalogs. On a case by case basis, it may be prudent to allow an application by carriers or  
9 customers for special construction charges to be recovered from the NUSF where no  
10 facilities are available. If the Commission were to adopt such a provision, ETCs must  
11 receive the one time support charges as a full up-front recovery from the NUSF in  
12 addition to the recurring support from the fund.  
13

14 Additional criteria, such as applying a requirement that the service be for a  
15 primary residence, will ensure that Nebraskans are not paying for the construction  
16 charges of a vacation home in a remote area.  
17

## 18 **ISSUE FIVE**

19 **Q. SHOULD A CARRIER OFFER SERVICES SPECIFICALLY**  
20 **DESIGNATED BY THE COMMISSION AS ELIGIBLE TO RECEIVE**  
21 **SUPPORT?**

22 **A.** Yes. Prior to designation as an eligible telecommunications carrier (ETC), the  
23 Commission should make a finding that the applicant possess the ability to offer and

1 advertise the services supported by the NUSF throughout the service area in which ETC  
2 designation is sought.

3 **Q. SHOULD A CARRIER OFFER SERVICES IN A GEOGRAPHIC AREA**  
4 **DESIGNED BY THE COMMISSION AS ELIGIBLE FOR SUPPORT?**

5 A. Yes, with one clarification. ETCs should be required to offer and advertise the  
6 supported services throughout the geographic service area in which the ETC is granted its  
7 designation.

8 **Q. SHOULD A CARRIER PRICE SUPPORTED SERVICES AT**  
9 **COMMISSION PRESCRIBED BENCHMARK LEVELS, COMMISSION**  
10 **PRESCRIBED ACCESS CHARGE STRUCTURE, AND COMMISSION**  
11 **PRESCRIBED ACCESS SERVICE PRICES?**

12 A. All ETCs should be held to the same pricing benchmarks, standards and  
13 requirements. The scope of the requirements that define eligibility will be clarified as the  
14 Commission determines the purpose of the fund and the funding mechanism. At this  
15 point in the proceeding, without having had an opportunity to review any proposed  
16 mechanisms, it is difficult to support any such pricing structures. Qwest looks forward to  
17 providing additional information on this topic as the proceeding is refined.

18 **Q. SHOULD CARRIERS BE REQUIRED TO OFFER SERVICE TO ANY**  
19 **REQUESTING PARTY IN A SUPPORT AREA WITHIN A SPECIFIC TIME**  
20 **FRAME?**

21 A. All carriers designated as an ETC should be required to have a catalog or  
22 customer agreement on file with the supported services. This agreement should provide  
23 the details of the services to be provided, and any Commission mandated service

1 requirements. These requirements should be standardized for all ETCs. Such a  
2 requirement upon supported service offerings will allow the Commission sufficient  
3 oversight on the service eligible for support. However, due to the nature of the  
4 geography of Nebraska, and the existence of rural, high-cost areas, the Commission  
5 should explore offering waivers to ETCs that are constructing facilities to reach the  
6 customers in the high-cost areas.

7  
8 **Q. DOES QWEST SERVE CUSTOMERS IN HIGH-COST RURAL AREAS**  
9 **OF NEBRASKA?**

10 A. Yes.

11

12 **ISSUE SIX**

13 **Q. SHOULD THE NUSF BEAR THE COSTS FOR ANY STRANDED**  
14 **INVESTMENT AND IF SO IN WHAT SITUATIONS?**

15 A. Qwest is not clear on the Commission's definition of "stranded investment." For  
16 the purpose of this response, Qwest defines stranded investment as a situation whereby a  
17 customer made a request for service and a carrier made an investment in dedicated  
18 facilities to that customer based solely upon that customer's commitment. It is in the  
19 circumstances when the customer then did not complete their commitment that the  
20 dedicated facility becomes stranded. Qwest does not believe that the NUSF should bear  
21 the costs for stranded investment unless the provider makes a showing with the  
22 Commission on why it should be reimbursed from the NUSF for its recovery of certain  
23 historic costs and investments it incurred to meet its universal service obligations. In

1 other words, the NUSF should not be relied upon as a mechanism to protect carriers from  
2 competitive losses.

3 The situation can be minimized if the Commission were to determine that ETCs  
4 should make their facilities available for resale from another ETC. So, if an ETC  
5 receives a customer request for service in its service area and the ETC in receipt of the  
6 customer request lacks facilities to serve the customer but *another* ETC does have  
7 facilities in place to serve the customer, then the ETC receiving the request must serve  
8 the customer with the option of leasing facilities from the ETC that has such facilities.  
9 Qwest proposes that all ETCs have a duty to provide services for resale at a business to  
10 business negotiated prices to the ETC obliged to serve the customer.

11 **MISCELLANEOUS ISSUES**

12 **Q. SHOULD THE FACT THAT A CARRIER IS ALREADY RECEIVING**  
13 **FEDERAL UNIVERSAL SERVICE SUPPORT AFFECT THE**  
14 **DETERMINATION OF WHETHER THAT CARRIER SHOULD RECEIVE**  
15 **ADDITIONAL SUPPORT FROM THE NEBRASKA FUND?**

16 A. Yes. In determining a carrier's need for support from the Fund, any support that  
17 the carrier would otherwise be eligible to receive should be reduced in an amount equal  
18 to the explicit high cost federal support received.

19

20 **Q. ARE ANY OF THE PARTIES TO THIS PROCEEDING ALREADY**  
21 **RECEIVING FEDERAL UNIVERSAL SERVICE SUPPORT?**

22 A. Yes. It should be noted that, in Qwest's case, no federal universal service high-  
23 cost support is received.

24

1 Prepared and Submitted this 4<sup>th</sup> day of March, 2002.

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